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National Association of Purchasing Management

Report On Business®

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Purchasing Index slips to 57.4%

New orders show robust growth

Price increase growth most since April 1980

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The *Report on Business* is based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

January Report

The economy grew in January, but at a somewhat slower rate than in December, say the nation's purchasing managers in their latest **Report on Business.** In light of normal seasonal factors, production growth was healthy but slower than in December; new orders were particularly strong. Vendor deliveries continued to slow; numerous commodities were in short supply or on allocation. Inventories increased slightly for the first time in five months. Employment grew, but at a slower rate than in the past six months. Prices continued to increase, with 65% of purchasers reporting higher prices and only 1% reporting lower. Of those members whose companies export, 39% said their export orders were better in January; only 3% said they were worse.

The report was issued today by Robert J. Bretz, C.P.M., chair of the National Association of Purchasing Management's Business Survey Committee and director of materials management at Pitney Bowes, Inc. "The economy entered 1988 with a healthy, although slower rate of growth than it ended 1987," Bretz said. "The growth in new orders was the largest in three months and suggests a respectable if not vigorous economy in the first quarter."

The **Purchasing Managers' Index** declined to 57.4% in January, the 18th consecutive month this leading economic indicator has registered over 50%. The number reflects an update by the U.S. Department of Commerce of the seasonal adjustment factors used to calculate the Purchasing Managers' Index. January's index is a decrease from 61.8% in December and 59.5% in November, figures that have also been revised to reflect the updated seasonal adjustment factors. A reading above 50% indicates that the economy is generally expanding; below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference, the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment rose in January, but just barely. Nevertheless, the net difference (+1) between those reporting higher employment (13%) and lower (12%) was enough to make January the 10th month of growth in the past 11.

Employment	% ...gher	% Same	% Lower	Net
January	13	75	12	+1
December	16	75	9	+7
November	15	72	13	+2

Buying Policy

Lead times for production materials were virtually unchanged in January, with 25% of members reporting lead times of 90 days or more, down slightly from 26% in December. This relatively long lead time reflects the continued slowing in vendor deliveries and selected commodity shortages. Lead times for capital expenditures lengthened, with 56% of members reporting lead times of six months or more, up from 54% the past two months and the most since July 1987 (56%). Lead times for maintenance, repair and operating (MRO) supplies were essentially unchanged in January with the percentage reporting buying hand-to-month (36%) only slightly higher than in December (33%) and the second-lowest since May 1985 (35%).

Percent Reporting

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
January	14	38	23	19	2
December	14	37	23	19	7
November	18	32	25	20	5
MRO Supplies					
January	36	48	12	3	1
December	33	50	12	3	2
November	38	48	10	3	1
Capital Expenditures					
January	10	5	16	13	56
December	8	8	11	19	54
November	11	8	10	17	54

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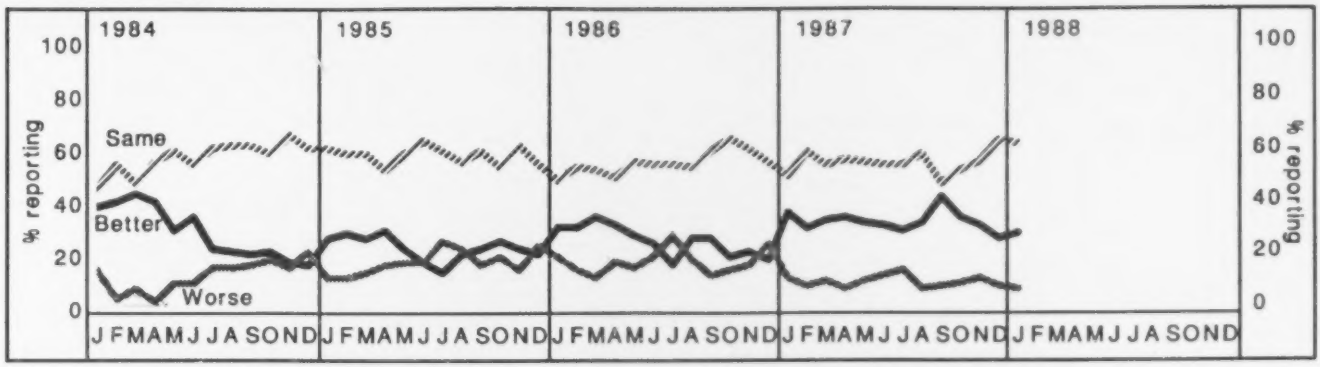
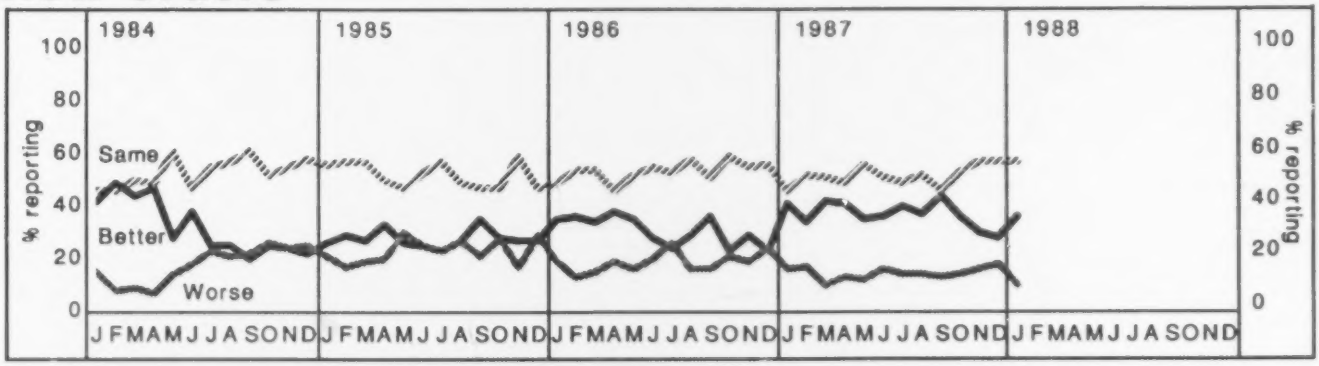
Production



Production expanded in January, registering the 13th consecutive month of growth and paralleling the growth in new orders. Although healthy, the rate of growth in January was not as brisk as in December, considering normal seasonal activity.

Production	% Better	% Same	% Worse	Net
January	29	63	8	+21
December	27	64	9	+18
November	32	56	12	+20

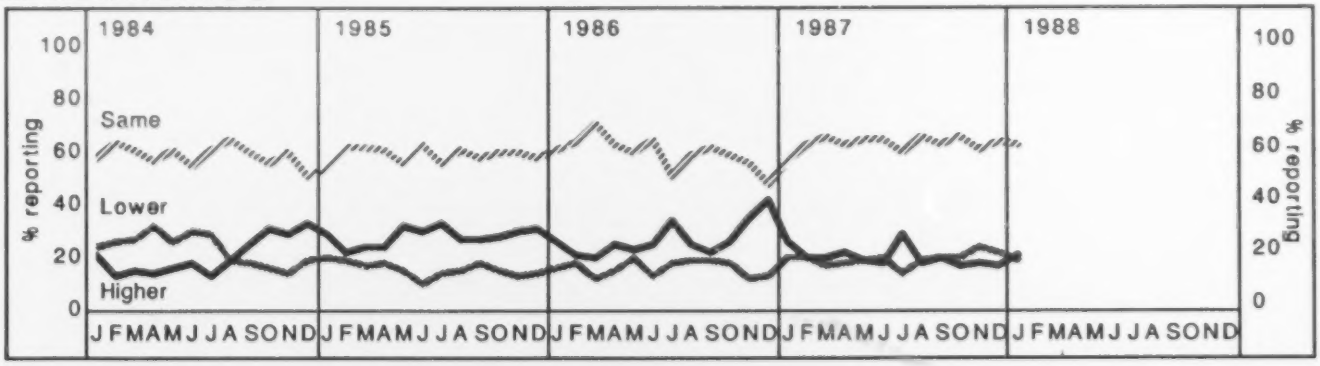
New Orders



January marked the 13th consecutive month of growth in new orders. The difference (+26) between those reporting better new orders (35%) and worse (9%) suggests continued growth in production in the first quarter. Undoubtedly this growth is being fueled to a large degree by robust expansion in exports, which should also help to reduce future trade deficits.

New Orders	% Better	% Same	% Worse	Net
January	35	56	9	+26
December	27	56	17	+10
November	29	56	15	+14

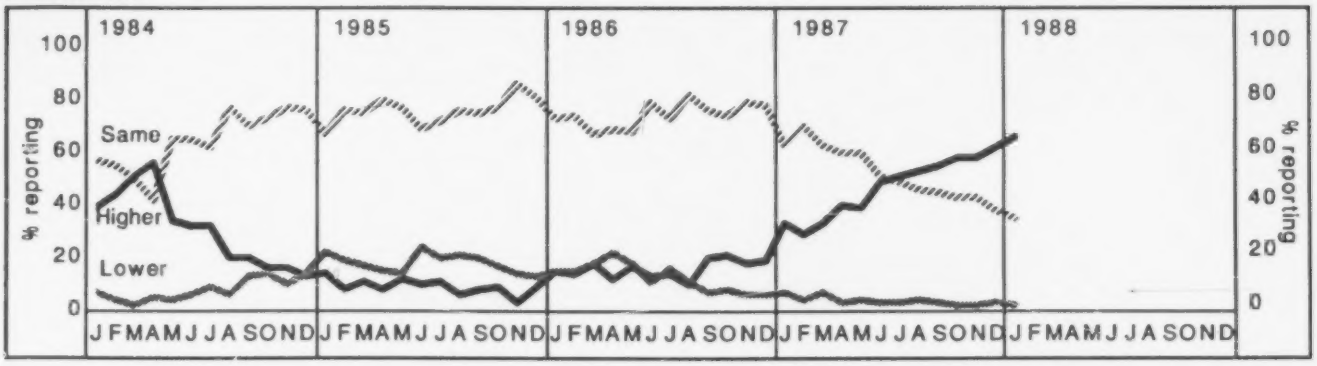
Inventories



Inventories grew in January for the first time in five months. Some of the slight growth in inventories can be attributed to attempts to cope with slower deliveries, shortages of selected commodities and some price hedging.

Inventories	% Higher	% Same	% Lower	Net
January	20	62	18	2
December	16	63	21	−5
November	17	60	23	−6

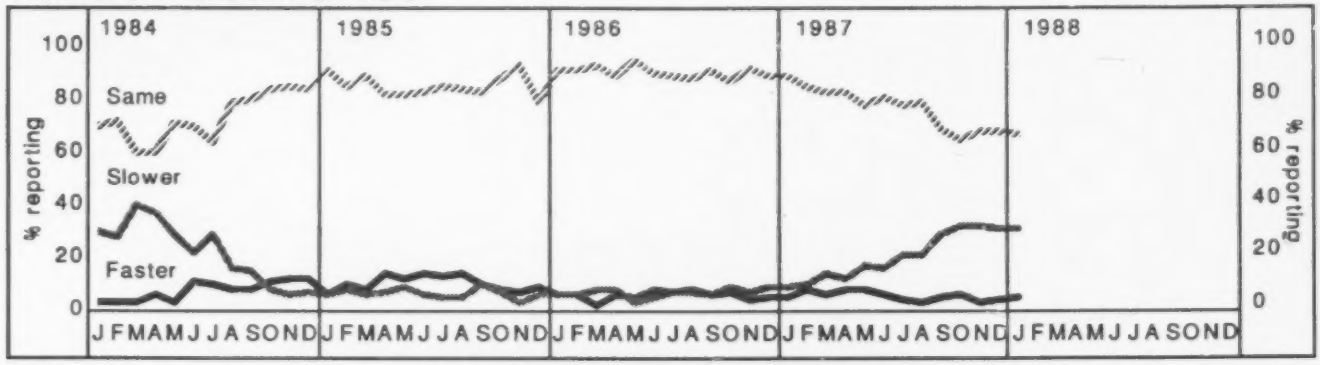
Prices


1984
1985
1986
1987
1988
100
80
60
40
20
0
% reporting
Same
Higher
Lower
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D

Prices rose in January for the 17th consecutive month. The 65% reporting higher prices is the most since April 1980 (67%), a period marked by rapidly increasing fuel prices. This time, other imports appear to be the main reason for price increases, triggered by the lower value of the dollar.

Prices	% Higher	% Same	% Lower	Net
January	65	34	1	+64
December	61	37	2	+59
November	57	42	1	+56

Vendor Deliveries


1984
1985
1986
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1988
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80
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0
% reporting
Same
Slower
Faster
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For the 16th consecutive month, more purchasers reported slower (30%) rather than faster (4%) deliveries. Delivery delays were compounded by an increasing number of commodities in short supply or on allocation.

Vendor Deliveries	% Faster	% Same	% Slower	Net
January	4	66	30	−26
December	3	67	30	−27
November	2	67	31	−29

Specific Commodity Changes

UP IN PRICE: Corrugated shipping containers (21st time in 22 months), printing paper (11th time in 13 months), lumber, caustic soda (14th consecutive month; used heavily in paper-making and petroleum refining), rayon, denim, aluminum (12th consecutive month), brass (third consecutive month), brass products, copper (11th consecutive month), copper tubing and products, nickel, steel (16th time in 17 months), steel products (third consecutive month), steel castings (fourth consecutive month), stainless steel, zinc, acetic acid (used heavily in plastic production), polyethylene (seventh time in eight months), ethylene (fifth time in six months; used heavily in making plastic resins), ethylene oxide (used in chemical synthesis, sterilization and fumigation), styrene (used chiefly in making synthetic rubber, resins and plastics), plastic resins (seventh time in eight months), plastic products (eighth consecutive month), methanol (second consecutive month; used heavily as a solvent and in synthesizing other chemicals), miscellaneous chemicals and natural gas (third consecutive month).

DOWN IN PRICE: Fuel oil (second consecutive month), diesel fuel, gasoline, benzene (used as a chemical solvent and in gasoline), soda ash (a dry form of caustic soda), lead and dairy products.

IN SHORT SUPPLY: Aluminum (particularly ingot; fourth consecutive month), copper (second consecutive month), steel (10th time in 11 months), hot- and cold-rolled steel sheets (ninth consecutive month), steel plates, galvanized steel, stainless steel, steel tubing, caustic soda (eighth consecutive month), acetic acid (second consecutive month), ethylene (second consecutive month), polyethylene (second consecutive month), plastic resins (third consecutive month), methanol (second consecutive month, caused primarily by a plant fire) and titanium dioxide (sixth consecutive month; a lead-free pigment used heavily as a whitener in coatings, paper and other industrial applications).

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in six important categories of data: production, new orders, inventories, prices, vendor deliveries and employment. These six components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the six components of *Report on Business* listed above, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the Department of Commerce and is the only part of the report adjusted for seasonal variations.

The next issue of *Report on Business* will be available March 7, 1988.

Commodity Reports

Paper Products

Prepared by the N.A.P.M. Paper Committee. Chair: Glenn Farber, C.P.M., Vanier Graphics Corporation, Santee, California.

Paper stocks took a sizable beating during the stock market "adjustment" of October 19. Many of the stocks lost upwards of 30% and, in spite of excellent sales and profit increases of up to 64%, stock prices still remain depressed. This could have a significant long-range impact on availability since many of the large companies probably are reluctant to spend hundreds of millions of dollars in expansions during this very uncertain period.

Newsprint: Newsprint producers are all operating between 98% and 100% of capacity. Most newsprint is purchased by contracts; thus, consumers of this product are guaranteed a prearranged supply provided there are no unexpected interruptions in production. No added capacity will start up within the next 12 months and only minimal capacity additions have been announced thus far for 1989 and 1990. Prices just increased 6.6% on the first of the year and there is some talk of perhaps another price increase midyear. Because of the very controlled supply, inventories are likely decreasing.

Uncoated Groundwood: With the acutely tight newsprint market it follows that uncoated groundwood grades are equally tight and also on allocation. The six-month projection is that this condition will remain even though one new piece of capacity is coming on early this year. Deliveries are running four to six weeks. Prices increased January 1 and no one would be surprised by another increase later in the year.

Coated Groundwood: The entire coated marketplace is extremely tight and shipments of both coated groundwood and coated free are 9.5% above 1986 through the first 10 months of 1987. In spite of all of these increases, the market is still very tight and most buyers are on a reservation or allocation system. Mills are not taking any new business and some people feel it will stay tight throughout 1988. Prices increased twice during 1987; likely, there will be continued increases through early 1988. Inventories are declining.

Uncoated Free Sheet: This particular commodity continues to grow with shipments up 4.7% in the first 10 months of 1987. This follows a 5.9% increase in 1985 and a 6.8% increase in 1986. The long-term forecast predicts that this grade will continue its strong growth and that supplies will continue to be tight primarily because of the explosion of office copy machines and computer printers. Imports are down considerably, primarily due to the strength of the dollar. Inventories, especially at the mills, are declining and probably will continue at a minimum level while the strong demand continues. Industry is anxiously waiting for the next added capacity to come on line in Louisiana, hopefully sometime during the summer. Two other additions in late fall or early next year may help take some of the pressure off temporarily. Most buyers of this grade are on allocation or some type of reservation system. Deliveries were somewhat unpredictable but mills have been doing a much better job on balancing demand with output. Deliveries can still be made in four to five weeks, provided the buyer has a reservation or allotment. Prices are increasing and, one respondent says, are "changing weekly." No one would be surprised if an additional increase is attempted by midyear.

Coated Free Sheet: This commodity is in about the same position as uncoated free. Basically most buyers are on some type of reservation or allocation system. Little added capacity is expected in near future. Lead times are running from four to six weeks. Once again, buyers are increasing inventories whenever possible. Agreement is unanimous that there will be additional price increases going into 1988.

Bleached Bristols: This commodity again remains about the only grade that is not on allocation and might even have some mill reps making sales calls. These grades basically are readily available, although not run as frequently as many of the more popular grades. Prices are somewhat stable, with some increases on certain grades. There likely will be some firming and perhaps a general increase in the second quarter.

Pulp: This is becoming almost a steady diet of regular quarterly price increases. It looks likely that there will be an increase in the first quarter of 1988; this will be the eighth consecutive increase. Northern softwood pulp through the fourth quarter of 1987 logged a 44% increase in price. Northern hardwood pulp prices increased 60% in the same period. With these kinds of increases it almost looks like the paper price increases are "reasonable." Pulp supplies are still tight; this is a worldwide commodity affected by all the worldwide economic variables.

It looks like 1987 set another record for production of paper and paperboard, approaching just under 74 million tons. In the first 10 months, paper grew approximately 3.9% overall. Imported paper products grew about 6% from 1986 levels. The U.S. continues to lead the world in per-capita paper consumption, in the 680-lb. range.

Packaging and Containers

Prepared by the N.A.P.M. Packaging and Containers Committee. Chair: Carl D. Dirkse, C.P.M., S. C. Johnson & Son, Inc., Racine, Wisconsin.

Two trends in packaging are on a collision course. More and more packaging is being made from plastic while more and more states are passing or proposing laws that will ban or tax non-recyclable containers. The industry is working on solving this dilemma, which will be the subject of this committee's workshop at the 1988 International Purchasing Conference.

The packaging industry has become a seller's market. It appears that the stock market crash had no effect on the packaging industry. Thirty-three members report tight supply situations; only one member reports a surplus supply situation (metal drums). Seventy-four members report various price increases and nobody reports any price decreases. In fact, more members report price increases than stable prices.

Purchasing personnel are attacking these supply problems in various ways. Some are changing or adding suppliers. Some are redesigning their packaging. Some are using more and more returnable containers.

Metal Cans: Tinplate manufacturers have succeeded in putting through price increases; this is resulting in increased can prices. Two plant closings have been announced, which will help reduce some of the surplus capacity. Supply is still adequate. Reynolds has announced the first resealable aluminum can. It has the advantage of lighter weight, faster and less labor-intensive filling and longer shelf life; the can is totally recyclable.

Fibre Cans: Supply is adequate. Sonoco now supplies about 90% of this market as a result of its recent acquisitions. Some price increases are being reported due to increased costs of paperboard, aluminum and liners.

Glass: Supply and demand are pretty much in balance in this industry. Prices are stable. The Federal Trade Commission voted 3–2 to oppose the acquisition of Brockway by Owens-Illinois. OI is still hoping for a compromise.

Molded Plastics: Every member except one reports higher prices. All resins are increasing in price, particularly HDPE. Several resins are in tight supply and some are on allocation. Supply of molded components is adequate to tight. The Food and Drug Administration has approved the use of acrylonitile/styrene copolymers for beer bottles. Business Communication Co. projects an average growth rate of 5% through 1990 for resin sales to the blow-molded container market, led by PET and PVC.

Films: Prices are increasing due to rapidly increasing resin prices. Some tightness of supply is reported due to tight resin supplies and heavy demand for film.

Laminated Stock: Supply is tight in this market. Lead times are lengthening. Components of laminated stock — plastic resins, foil and paper — are also in tight supply. All these conditions account for the increasing prices.

Metal Drums: This is about the only packaging item with adequate to surplus capacity, despite Rheem's decision to leave the industry. Some members report price increases due to increased steel prices.

Fibre Drums: Supply and demand seem to be pretty much in balance. Some price increases are being reported due to price increases on containerboard.

Folding Cartons: After years in the doldrums, this category has really awakened. Demand is strong and lead times are lengthening. Some shortages are being noted. As a result of this strong demand, prices are increasing.

Corrugated: Both domestic and export demand is very strong. Lead times are lengthening. Price increases continue to be experienced with further price increases being rumored.

Bags: Demand for bags is very strong, and some tightness of supply is being experienced. Prices are increasing due to demand, paper increases and plastic resin increases.

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February 1, 1988

Dear Report on Business Reader:

The January Report on Business, distributed February 1, contains an error.

Under Buying Policy, the percentage of respondents claiming lead times of six months or longer for production materials in January was not two percent, as reported. The correct figure is six percent.

NAPM regrets the error.

Sincerely,

Susan M. Fitzgerald
Publications Manager
NATIONAL ASSOCIATION OF PURCHASING MANAGEMENT, INC.